

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 10250 01 OF 02 221749Z

50

ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 EURE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 EA-06 FRB-03 INR-07 IO-10 NEA-09

NSAE-00 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01

OMB-01 PM-03 NSC-05 SS-15 H-02 AGR-05 HUD-01 L-02

FEAE-00 OIC-02 /109 W

----- 122582

P R 221729Z APR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 6694

AMEMBASSY MADRID PRIORITY

INFO USMISSION NATO

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 10250

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF SPAIN, APRIL 25

REF: OECD DOCUMENT EDR(75)7

1. SUMMARY. SECRETARIAT RECOMMENDS THAT SPAIN MAINTAIN EXPANSIONARY POLICY STANCE IN 1975 TO AVOID EMERGENCE OF LARGE-SCALE UNEMPLOYMENT. SECRETARIAT CONSIDERS IT UNLIKELY THAT THERE WILL BE ECONOMIC RECOVERY BEFORE END OF 1975, WITH REAL GDP EXPECTED TO RISE ABOUT 3 PERCENT AND EMPLOYMENT SITUATION WORSENING. PRESENT UPWARD MOMENTUM OF PRICES EXPECTED TO CONTINUE STRONG (DUE TO WAGE PRESSURES) BUT MAY BEGIN TO SLACKEN DURING COURSE OF YEAR. SECRETARIAT PROJECTS BALANCE OF PAYMENTS IN 1975 WILL AGAIN SHOW SIGNIFICANT DEFICIT ON CURRENT ACCOUNT (ABOUT \$2.5 BILLION) FOR WHICH FINANCING MAY PRESENT MORE DIFFICULTIES THAN IN 1974. MAIN ISSUES FOR DISCUSSION AT ANNUAL REVIEW WILL BE: (A) SHORT-TERM

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 10250 01 OF 02 221749Z

FORECASTS OF DEMAND AND PRODUCTION; (B) RISKS OF WORSEN-

ING CONDITIONS ON LABOR MARKET; (C) MEASURES TO CONTROL INFLATION, AND (D) OUTLOOK FOR BALANCE OF PAYMENTS, TRADE ACCOUNT, INVISIBLES, CAPITAL MOVEMENTS AND EXCHANGE RATES. ACTION REQUESTED: MISSION WOULD APPRECIATE COMMENTS OR QUESTIONS FROM DEPARTMENT AND EMBASSY MADRID IN TIME FOR ANNUAL REVIEW. END SUMMARY.

2. GENERAL ECONOMIC OUTLOOK: SECRETARIAT EXPECTS GROWTH OF SPANISH ECONOMY TO BE VERY MODERATE IN 1975 BY PAST STANDARDS, WITH GDP RISING ABOUT 3 PERCENT IN REAL TERMS. THIS WILL INEVITABLY LEAD TO EMERGENCE OF SURPLUS CAPACITY AND INCREASE IN UNEMPLOYMENT, WHICH WILL BE AGGRAVATED BY IMPACT OF DEPRESSED INTERNATIONAL ECONOMIC CLIMATE. SECRETARIAT BELIEVES SOMEWHAT SLOWER RATE OF GROWTH OF WAGE INCOMES MAY ENCOURAGE HOUSEHOLDS TO REDUCE SAVINGS RATIO TO MAINTAIN CONSUMPTION LEVELS, BUT RISING UNEMPLOYMENT MAY HAVE OPPOSITE EFFECT, WITH NET RESULT THAT PRIVATE CONSUMPTION EXPECTED TO INCREASE BY ONLY 2 PERCENT IN 1975. RATE OF GROWTH OF INVESTMENT LIKELY TO SLOW CONSIDERABLY TO ABOUT 3 PERCENT IN 1975, AND IT IS UNLIKELY THAT HOUSE CONSTRUCTION WILL RECOVER IN VIEW OF LARGE STOCK OF UNSOLD DWELLINGS. FINAL DOMESTIC DEMAND WILL PROBABLY INCREASE BY ABOUT 2.5 PERCENT DURING 1975.

3. EMPLOYMENT OUTLOOK: SECRETARIAT CONSIDERS IT LIKELY THAT THERE WILL BE A MARKED INCREASE IN UNEMPLOYMENT IN 1975 DUE TO SLOWDOWN IN DOMESTIC ACTIVITY AND EXPECTED DECLINE IN NET EMIGRATION TO NEAR ZERO LEVEL IN 1975. SECRETARIAT CONSIDERS THIS TO BE THE MAJOR POLICY PROBLEM FOR 1975 AND RECOMMENDS THAT GOS CONSIDER IMPROVING UNEMPLOYMENT INSURANCE COVERAGE OUT OF PUBLIC FUNDS AND INTRODUCE PARTICIPATION BY FIRMS IN INSURANCE SCHEMES. SECRETARIAT BELIEVES THAT IF DOWNWARD TREND BECOMES MORE MARKED IT WOULD BE ESSENTIAL TO MAKE ECONOMIC POLICY STILL MORE EXPANSIONARY THROUGH SHORT-TERM USE OF MONETARY AND BUDGETARY INSTRUMENTS WHICH SHOULD BE TAILORED TO AVOID FURTHER RISE IN INFLATIONARY PRESSURES.

4. MONETARY AND FISCAL POLICY: SECRETARIAT SUGGESTS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 10250 01 OF 02 221749Z

THAT GOS ADOPT SELECTIVE MONETARY APPROACH BY EXPANDING CREDIT TO SMALL- AND MEDIUM-SIZE FIRMS. FISCAL POLICY SHOULD RETAIN ITS EXPANSIONARY CHARACTER AND GOS SHOULD ENCOURAGE PUBLIC BODIES TO BRING FORWARD THEIR CAPITAL INVESTMENT PROJECTS. FUND FOR SHORT-TERM ECONOMIC INTERVENTION SHOULD BE CHanneled INTO AREAS LIKE LOW-COST HOUSING WHICH PROVIDE SHORT-TERM STIMULUS TO EMPLOYMENT.

5. PRICE OUTLOOK: SECRETARIAT SEES LITTLE SLOWDOWN IN RAPID UPWARD MOVEMENT OF PRICES DUE TO STEEP RISE IN WAGE EARNINGS IN 1974 AND PROSPECT THAT FOOD PRICES MAY ESCALATE IN 1975. YEAR-ON-YEAR INCREASE IN CONSUMER PRICES MAY REACH 17 PERCENT, ALTHOUGH SOME DECELERATION CAN BE EXPECTED OVER COURSE OF YEAR IN RESPONSE TO WEAKNESS OF DOMESTIC DEMAND. WAGES EXPECTED TO RISE MORE SLOWLY THAN IN 1974 BUT STILL AT 21 PERCENT ANNUAL RATE.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 10250 02 OF 02 221749Z

50

ACTION EUR-12

INFO OCT-01 ISO-00 SAM-01 EURE-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 EA-06 FRB-03 INR-07 IO-10 NEA-09

NSAE-00 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01

OMB-01 PM-03 NSC-05 SS-15 H-02 AGR-05 HUD-01 FEAE-00

L-02 OIC-02 /109 W

----- 122704

P R 221729Z APR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC PRIORITY 6695

AMEMBASSY MADRID PRIORITY

INFO USMISSION NATO

LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 10250

SECRETARIAT CONSIDERS IT NECESSARY TO MAINTAIN EXISTING PRICE CONTROL MACHINERY IN 1975 AND TO SET EFFECTIVE NORMS FOR WAGE INCREASES SO AS TO AVOID PRICE-WAGE SPIRAL. SECRETARIAT IS SOMEWHAT PESSIMISTIC ABOUT POSSIBILITIES FOR INDUCING WAGE EARNERS TO ACCEPT STAGNATION OF REAL PURCHASING POWER UNLESS THEY RECEIVE

SUBSTANTIAL IMPROVEMENTS IN WORKING CONDITIONS AND
SECURITY OF EMPLOYMENT IN RETURN.

6. BALANCE OF PAYMENTS: SECRETARIAT EXPECTS TRADE
DEFICIT TO REACH ABOUT \$7.4 BILLION IN 1975, WITH BOTH
IMPORT AND EXPORT VOLUMES GROWING AT SLOWER RATE THAN IN
1974 DUE RESPECTIVELY TO LESS BUOYANT DOMESTIC DEMAND
AND WEAKNESS OF FOREIGN MARKETS. HOWEVER, TERMS OF TRADE
MAY IMPROVE SLIGHTLY WITH RESULT THAT CURRENT ACCOUNT
DEFICIT MAY BE REDUCED TO \$2.5 BILLION. FINANCING OF
THIS DEFICIT MAY CAUSE DIFFICULTIES IF NET INFLOW OF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 10250 02 OF 02 221749Z

LONG-TERM CAPITAL CONTINUES TO SLOW DOWN. SECRETARIAT
RECOMMENDS THAT SPANISH WORKERS ABROAD BE OFFERED
PREFERENTIAL INTEREST RATES ON DEPOSITS IN SPAIN AS
INCENTIVE TO REPATRIATE THEIR FUNDS. IT WARNS AGAINST
RECOURSE TO IMPORT RESTRICTIONS OR TO SHARP DEPRECIATION
OF PESETA. FINALLY, SECRETARIAT BELIEVES THAT ENERGY
POLICY WILL HAVE TO BE RECONSIDERED WITH REGARD TO 1974
REDUCTION OF TAXES WHICH, ALTHOUGH MODERATING IMPACT OF
ENERGY PRICE INCREASE, HAVE PREVENTED NECESSARY LIMITA-
TIONS ON DOMESTIC CONSUMPTION AND ON IMPORTS OF
PETROLEUM PRODUCTS.

7. ACTION REQUESTED: MISSION WOULD APPRECIATE
COMMENTS OR QUESTIONS FROM ACTION ADDRESSEES IN TIME FOR
ANNUAL REVIEW APRIL 25. MISSION WELCOMES GOODMAN'S
PARTICIPATION AT ANNUAL REVIEW. RESERVATIONS CONFIRMED
AT HOTEL NICOLO FOR MR. AND MRS. GOODMAN APRIL 24 TO 26
INCLUSIVE.
TURNER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: UNEMPLOYMENT, ECONOMIC REPORTS, ECONOMIC DATA, ECONOMIC ESTIMATES, PRICES, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP10250
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750141-0018
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750428/aaaabamp.tel
Line Count: 205
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 OECD DOCUMENT EDR(7
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 20 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 MAY 2003 by BoyleJA>; APPROVED <21 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EDRC ANNUAL REVIEW OF SPAIN, APRIL 25
TAGS: ECON, SP, OECD, EDRC
To: STATE MADRID
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006